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ARIZONA CORPORATION COMMISSION

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August 31, 2009

Jeff Guldner
Arizona Public Service
Vice President of Regulations
400 North 4th Street, M.S. 8995
Phoenix, Arizona 85004

Re: Declining Natural Gas Prices; Docket No. E-01345A-08-0172

Dear Mr. Guldner and Parties to the Docket:

I am attaching a news article that ran in the business section of today's *Arizona Republic* regarding the impact that low natural-gas prices is having on electric rates. The article asserts that APS receives about 32% of its annual energy from natural gas generation, whereas SRP receives only 11%. The article also states that, due to the declining cost of natural gas, APS plans to reduce its rates for the average residential customer by about \$4.71 in January, and that SRP plans to reduce its rates for the average residential customer by \$5.26 in November.

I want this article incorporated into the record, and I want the parties to answer the following questions:

- (1) Should the Commission wait until January before adjusting rates downwards to reflect the lower costs of natural gas? If so, why?
- (2) Is it true that the amount of energy APS receives from natural gas is approximately three times greater than SRP? If not, what are the appropriate percentages?
- (3) If APS receives a larger percentage of its energy from natural gas, why isn't the bill impact associated with the declining natural gas costs greater for APS customers than for SRP customers?

Sincerely,

Commissioner Gary Pierce

cc: Chairman Kristin Mayes
Commissioner Sandra Kennedy
Commissioner Bob Stump
Commissioner Paul Newman

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Low natural-gas prices may shrink bills

SRP, APS say they'll bring down some fees; companies will still pursue rate increases

*by Ryan Randazzo - Aug. 29, 2009 12:00 AM
The Arizona Republic*

The weak economy has deflated natural-gas prices enough that electricity surcharges at Arizona utilities will fall, which could cushion but not eliminate the impact of rate increases.

Arizona Public Service Co. and Salt River Project both pass the cost of natural gas directly to customers with no markup, and the charges move up and down separately from regular rates.

The APS "power-supply adjuster" and SRP "fuel escalator" get tweaked annually, sometimes twice a year, to reflect prices of natural gas for their power plants.

APS plans to reduce its charge by about \$4.71 a month on the average home bill beginning in January, Vice President of Regulations Jeff Guldner said.

If APS gets the rate hike it is requesting from regulators, the average home monthly bill would rise \$1.22, or 0.93 percent above current rates, because of the fuel decline, he said.

SRP plans to reduce its rates by \$5.26 a month on the average home bill in November because of fuel prices, Chief Financial Executive Mark Bonsall said.

SRP is considering a rate increase that would average about \$12 a month on homes even with the fuel cut. The rate hike would be more than \$17 a month without the fuel cut.

If not for the regular rate increases, utility prices would fall. APS is in regulatory hearings for its increase, and SRP officials are debating theirs.

If and when natural-gas prices rise, the utilities will adjust their fuel surcharges upward.

Natural-gas prices hit a seven-year low on Thursday at the Henry Hub in Louisiana, a key trading point that sets prices on the New York market.

The gas is traded in futures contracts in blocks of a million British thermal units, and the price for one unit fell to \$2.69, down from more than \$12 a little more than a year ago.

SRP gets about 11 percent of its annual power generation from natural-gas plants and APS about 32 percent.

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